GFM RESOURCES LIMITED

(An exploration-stage company)

Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

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Suite 2000 – 1066 West Hastings Street
Vancouver, BC
Canada V6E 3X2

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
GFM Resources Limited

We have audited the accompanying consolidated financial statements of GFM Resources Limited, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of GFM Resources Limited as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of GFM Resources Limited to continue as a going concern.

Other Matters

The consolidated financial statements of GFM Resources Limited for the year ended December 31, 2015 were audited by other auditors who expressed an unmodified opinion on those statements on April 4, 2016.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

March 1, 2017

GFM RESOURCES LIMITED

(an exploration-stage company)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

As at	Note	**December 31, 2016** **$**	December 31, 2015 $
ASSETS			
Current			
Cash and cash equivalents		**10,636**	5,598
Accounts receivable	4	**1,098**	2,037
Prepaid expenses and deposits		**1,250**	1,250
		12,984	8,885
LIABILITIES			
Current			
Accounts payable and accrued liabilities	5	**15,934**	24,024
Due to related parties	8	**576,660**	676,356
Liability component of convertible loan	6	**802,869**	649,135
		1,395,463	1,349,515
SHAREHOLDERS' DEFICIENCY			
Share capital	7	**3,484,022**	3,484,022
Contributed surplus	7	**507,236**	507,236
Equity component of convertible loan	6	**339,650**	289,112
Foreign currency reserve		**104,298**	(26,372)
Deficit		**(5,817,685)**	(5,594,628)
		(1,382,479)	(1,340,630)
		12,984	8,885

The accompanying notes are integral part of these consolidated financial statements

Approved by the board of directors and authorized for issue on March 1, 2017

Note 1 - Nature of Operations and Going Concern Uncertainty

"James Robertson"	*"José Antonio Rivero González"*
Director	Director

GFM RESOURCES LIMITED

(an exploration-stage company)

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

		Years ended	
		December 31, 2016	December 31, 2015
	Note	**$**	$
EXPENSES			
Administration and accounting	8	**60,000**	61,000
Audit and legal		**24,726**	34,655
Property examination costs		**24,053**	26,686
Filing and transfer agent fees		**12,515**	17,157
Directors' fees	8	**12,000**	12,000
Office and sundry		**2,760**	12,061
Foreign exchange loss		**731**	734
Loss before other expenses		**(136,785)**	(164,293)
Other expenses			
Accretion of convertible loan	6	**(64,261)**	(52,203)
Interest on convertible loan	6	**(22,011)**	(18,166)
Write-down of value added tax recoverable		**-**	(1,612)
Loss for the year		**(223,057)**	(236,274)
Other comprehensive income (loss)			
Exchange differences on translating foreign operations, net of tax		**130,670**	(13,046)
Total comprehensive loss for the year		**(92,387)**	(249,320)
Loss per share (basic and diluted)		**(0.01)**	(0.01)
Weighted average number of shares outstanding (basic and diluted)		**19,085,071**	19,085,071

The accompanying notes are integral part of these consolidated financial statements

GFM RESOURCES LIMITED

(an exploration-stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

		Years ended	
		December 31, 2016	December 31, 2015
	Note	**$**	$
Operating activities			
Loss for the year		**(223,057)**	(236,274)
Adjustments for items not involving cash:			
- Accretion expense	6	**64,261**	52,203
- Non-cash interest on convertible loan	6	**22,011**	18,166
- Non-cash impact of foreign exchange translation		**7,486**	1,128
		(129,299)	(164,777)
Changes in non-cash working capital items:			
- Accounts receivable		**939**	(318)
- Accounts payable and accrued liabilities		**(8,090)**	3,949
Cash generated from (used in) operating activities		**(136,450)**	(161,146)
Cash flows from financing activities			
Convertible loan advances	6	**118,000**	133,000
Funding of subsidiary	8	**24,106**	27,537
Cash (used in) generated from financing activities		**142,106**	160,537
Effect of foreign exchange translation on cash		**(618)**	427
Net change in cash		**5,038**	(182)
Cash, beginning of the year		**5,598**	5,780
Cash, end of the year		**10,636**	5,598
Supplementary information:			
Income taxes paid in cash		**-**	-
Interest paid in cash		**-**	-
Issuance of common shares in settlement of debt to related party		**-**	-

The accompanying notes are integral part of these consolidated financial statements

GFM RESOURCES LIMITED

(an exploration-stage company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

(Expressed in Canadian Dollars)

	Note	Share capital		Contributed surplus	Equity portion of convertible loan	Foreign currency reserve	Deficit	Total
		Amount	Value					
		#	$	$	$	$	$	$
Balance, December 31, 2014		19,085,071	3,484,022	507,236	232,153	(13,326)	(5,358,354)	(1,148,269)
Convertible loan with related party	6	-	-	-	56,959	-	-	56,959
Comprehensive loss for the year		-	-	-	-	(13,046)	(236,274)	(249,320)
Balance, December 31, 2015		19,085,071	3,484,022	507,236	289,112	(26,372)	(5,594,628)	(1,340,630)
Convertible loan with related party	6	-	-	-	50,538	-	-	50,538
Comprehensive loss for the year		-	-	-	-	130,670	(223,057)	(92,387)
Balance, December 31, 2016		**19,085,071**	**3,484,022**	**507,236**	**339,650**	**104,298**	**(5,817,685)**	**(1,382,479)**

The accompanying notes are integral part of these consolidated financial statements

1. Nature of Operations and Going Concern Uncertainty

GFM Resources Limited (the "Company") was incorporated under the laws of British Columbia, Canada, on September 3, 1987. During the year ended December 31, 2000, the Company continued its operation in the Yukon Territory under the Business Corporation Act of Yukon and registered as an extra-provincial company in British Columbia under the laws of British Columbia. The addresses of the Company are:

- Administration office: Suite 2000 – 1066 West Hastings Street, Vancouver, BC V6E 3X2, Canada.
- Registered records office: Suite 1500 – 1055 West Georgia Street, Vancouver, BC, V6E 4N7, Canada

The Company is in the business of acquisition, exploration and development of mineral properties.

These consolidated financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred significant losses since inception, and has a working capital deficiency, as follows:

	December 31, 2016	December 31, 2015
	$	$
Deficit	**(5,817,685)**	(5,594,628)
Working capital deficiency:	**(1,382,479)**	(1,340,630)

Continued operations of the Company are dependent on the Company's ability to obtain public equity financing or to receive continued financial support from its controlling shareholder, Compañía Minera Autlán, S.A.B. de C.V. ("Autlan"), of Mexico. There can be no assurance the Company will be successful in achieving these goals and, accordingly, there is a material uncertainty casting significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and these adjustments could be material.

2. Basis of preparation

(a) Statement of compliance

These annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issues by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors for issue on March 1, 2017.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

2. Basis of preparation (cont'd…)

(c) Functional and presentation currency

In management's judgement the functional currency of the Company is the Canadian dollar, and the functional currency of the Mexican wholly owned subsidiary is the Mexican peso. The presentation currency used in preparing the consolidated financial statements of the Company is the Canadian dollar.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual results may differ from these estimates.

The main judgments and estimates made by management in applying accounting policies primarily relate to the following:

Value added tax recoverable

The Company is subject to value added tax recoverable in Mexico. There are transactions and calculations for which the ultimate tax recoverable for these is a form of judgment. The Company reviews the collectability of the value added tax on an ongoing basis and makes judgment as to its ability to recover this tax. Where there is uncertainty around the recoverability of this tax, a judgment is made and the value added tax will be written off in the Statement of Loss.

Convertible Loan

The Company entered into a convertible loan agreement in 2007. Management have accounted for the convertible loan in a way that the convertible loan was split into an equity element representing the conversion feature and a liability element representing the debt component. The liability element is calculated as the present value of the stream of interest and principal payments discounted at a rate approximate to the interest for a similar liability without a conversion feature. Significant estimation is involved in determining the discount rate assumption and the estimated timing of repayment used to estimate the fair value of the liability component.

(e) New and revised standards and interpretations not yet adopted

New IFRS pronouncements that have been issued but are not yet effective are listed below. The Company plans to apply the new standard or interpretation in the annual period for which it is first required:

2. Basis of preparation (cont'd…)

(e) New and revised standards and interpretations not yet adopted (cont'd…)

IFRS 9, *Financial Instruments* (new; to replace IAS 39)

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. This new standard replaces International Accounting Standards ("IAS") 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets and new rules for hedge accounting.

IFRS 9 requires financial assets to be classified into one of three measurement categories on initial recognition: fair value through profit and loss, fair value through other comprehensive income and amortised cost. Measurement and classification of financial assets is dependent on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The new standard retains most of the existing requirements for financial liabilities.

IFRS 9 introduces a new impairment model for financial assets. This new model may result in the earlier recognition of credit losses as it requires the Company to account for expected credit losses from the time the financial instruments are first recognised.

The Company is currently assessing the effect of this standard on the consolidated financial statements.

3. Significant Accounting Policies

These consolidated financial statements have been prepared within the framework of the significant accounting policies provided as follows:

(a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned Mexican subsidiary GFM Resources de Mexico, S.A. de C.V. Inter-company balances and transactions, including unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

The Company's subsidiary is:

Name of subsidiary	Jurisdiction of incorporation	Percent ownership	Principal activity
GFM Resources de México, S.A. de C.V.	Mexico	100%	Mineral exploration

3. Significant Accounting Policies (cont'd…)

(b) Foreign Currencies

Determination of functional currency

In determining the functional currency of the Company the following was considered:

- the currency that mainly influences the cost of labour, materials, service and other costs of exploration and evaluation activities; and
- the currency used to maintain the amounts charged by operating activities.

Foreign currency translation

In preparing the financial statements of each individual entity within the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

(c) Loss Per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts are calculated in accordance with the treasury stock method which assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the prevailing market rate. Under the treasury stock method, the basic and diluted loss per share are the same, as the effect of common shares issuable upon the exercise of warrants and stock options of the Company would be anti-dilutive.

3. Significant Accounting Policies (cont'd…)

(d) Income Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Any tax currently payable is based on taxable profit for the year. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for taxable temporary differences except investments in subsidiaries and joint ventures where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities

(e) Share-based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options (including any estimated forfeitures). The fair value of direct awards of shares is determined by the quoted market price of the Company's stock.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded-vesting basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service

3. Significant Accounting Policies (cont'd…)

(f) Financial Instruments

Cash and cash-equivalent and receivables are classified as loans and receivables, which are recorded at amortized cost. Accounts payable and amounts due to Related Parties and the liability component of Convertible Loan are classified as other financial liabilities, all of which are recorded at amortized cost.

(g) Mineral Properties

The exploration and evaluation phase of a mineral project is assumed to commence at the time the Company obtains the legal right to explore a property. Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Costs related to activities occurring before the exploration and evaluation of a project are expensed in the period in which they occur. Costs incurred during the exploration and evaluation phase are initially capitalized to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Under this method, all amounts shown as mineral properties represent costs incurred to date less amounts amortized and/or written off and do not necessarily represent present or future values.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

If the properties are put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be charged to the statement of loss. The Company does not accrue the estimated future costs of maintaining in good standing its mineral properties.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property or cost recoveries when the payments are made or received.

3. Significant Accounting Policies (cont'd…)

(h) Financial assets

Financial assets, other than derivatives, are designated as available-for-sale, loans and receivables or as at fair-value-through-profit-or-loss (“FVTPL”).

Financial assets classified as available-for-sale are measured at fair value on initial recognition plus transaction costs and subsequently at fair value with unrealised gains and losses recognised in other comprehensive income (loss) except for financial assets that are considered to be impaired in which case the loss is recognised in net income or loss.

Financial assets classified as loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest rate method.

Financial assets classified as FVTPL are measured on initial recognition and subsequently at fair value with unrealized gains and losses recognized in income or loss. Transaction costs are expensed for assets classified as FVTPL.

(i) Financial liabilities

Financial liabilities, other than derivatives, are initially recognised at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Accounts payables and due to related parties are classified as other liabilities, which are measured at amortised cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognised in net income or loss.

4. Accounts Receivable

	December 31, 2016	December 31, 2015
GST/HST receivable	$ **1,098**	$ 2,037

5. Accounts Payable and Accrued Liabilities

The Company’s accounts payable and accrued liabilities are as follows:

	December 31, 2016	December 31, 2015
Trade payables	$ **930**	$ 11,025
Accrued liabilities	**15,004**	12,999
Total	$ **15,934**	$ 24,024

6. Convertible Loan

On March 1, 2007, the Company entered into a convertible Loan Agreement (the "Loan Agreement") with Grupo Ferrominero, S.A. de C.V. ("Grupo"), at that time Autlan's controlling shareholder. Under the terms of the Loan Agreement, Grupo will fund amounts from time to time to a maximum of $500,000 per year. Each advance will bear interest, commencing on the date of the advance, at the Prime Rate offered by the Company's bank on such date. The loan is repayable on demand. Ownership of the loan was subsequently transferred to Autlan.

Under the terms of the Loan Agreement, Autlan has the right to convert the principal amount of each advance into units of the Company at the closing price of the Company's common shares on the TSX Venture Exchange on the day before the advance (the "Conversion Price"). Each unit will consist of one common share and one common share purchase warrant. Each warrant will be exercisable for a period of one year from the date of advance at the higher of the Conversion Price or the minimum exercise permitted by the TSX Venture Exchange.

On September 30, 2007, an Amending Agreement was entered into whereby, should Grupo exercise its conversion right after one year from the date of the advance, then the principal amount of the advance will be converted only into common shares of the Company at the Conversion Price, instead of into units consisting of one common share and one share purchase warrant. Furthermore, the convertibility provision will be restricted to a maximum of five years from the date of each advance. Since the sale in 2007 of the majority of the Company's shares owned by Grupo to Autlan, Autlan has been providing the advances under the exact same terms.

During the year ended December 31, 2010, the Company settled all of the principal amounts owed until then through the issuance of shares and warrants pursuant to the terms of the Amending Agreement. The portion of interest owed until then of $68,090 remains outstanding and is added to interest owed on subsequent advances. Interest is calculated using the Canadian Prime rate in effect at the date of each advance. The weighted average interest rate for advances received during the period ended December 31, 2016 was 2.7%.

The Company accounts for the convertible loan by splitting the fair value into an equity element representing the conversion feature and a liability element representing the debt component.

The liability element is calculated, at the date of each advance, as the present value of the stream of interest and principal payments discounted at a rate approximate to the interest for a similar liability without a conversion feature. This rate has been estimated by the Company at 15% for all outstanding advances. The difference between the cash received and the liability element is recorded as the equity element. The debt discount is accreted over the expected term to maturity in the consolidated statement of loss.

The balances on the convertible loan are as follows:

		Liability component				**Equity component**
	Amounts advanced	Discounted principal	Accrued interest	Accrued accretion expense	Total	
	$	$	$	$	$	$
Balance, December 31, 2014	542,100	309,947	100,435	92,343	502,725	232,153
Loan advances from Autlan	133,000	76,041	18,166	52,203	146,410	56,959
Balance, December 31, 2015	675,100	385,988	118,601	144,546	649,135	289,112
Loan advances from Autlan	118,000	67,462	22,011	64,261	153,734	50,538
Balance December 31, 2016	**793,100**	**453,450**	**140,612**	**208,807**	**802,869**	**339,650**

Subsequent to December 31, 2016, the Company has received $30,000 in further advances pursuant to the Loan Agreement.

7. Share Capital

a) Authorized: unlimited number of common shares without par value. There are no restrictions on transfers.

b) Issued and outstanding:

There were 19,085,071 common shares issued and outstanding as of December 31, 2016 and 2015. No common shares were issued during fiscal years ended December 31, 2016 and 2015.

c) Warrants

There were no warrants outstanding as of December 31, 2016 (December 31, 2015 – Nil).

d) Stock options

On May 23, 2006, the Board of Directors approved the adoption of a new incentive stock option plan (the "Plan"), which was approved by the shareholders on June 29, 2006, and ratified by the shareholders at each subsequent annual general meeting of shareholders, including the one on June 27, 2016. The Plan allows grants of options to a maximum of 10% of the issued and outstanding shares of the Company at any time.

As the Company is currently in the search for mineral property acquisition targets, the stock options granted to the consultants and other non-employees of the Company are to serve as incentive in that process. Therefore, a reliable estimate of the fair value of these options based on the equivalent fair market value of services rendered is very difficult to assess given the unique and varying nature of these services and the lack of comparable market information. Accordingly, the Company has measured share-based payments to non-employees based on the fair value of the equity instruments granted.

Stock options outstanding and exercisable are as follows:

	Options	Weighted average exercise price $
Balance, December 31, 2014.	442,500	0.10
Expired unexercised	(442,500)	0.10
Balance, December 31, 2015 and 2016	-	-

Each option entitled the holder to purchase one common share of the Company.

8. Related party transactions

During the years ended December 31, 2016 and 2015, the Company entered into the following transactions with related parties and incurred payments to key management personnel, which were in the normal course of operations.

Years ended December 31:	**2016**	2015
	$	$
Management fees paid to a company controlled by the Chief Financial Officer of the Company:	**60,000**	61,000
Chief Financial Officer of the Company:	**600**	8,400
Director's fees:	**12,000**	12,000
subsidiary in order for it to pay for the mineral rights of La Casita, and meet other local obligations (i) :	**24,106**	27,537
Amounts advanced by Autlan (i)(ii) :	**118,000**	133,000
Interest accrued on advances received	**22,011**	18,166

(i) The Company is controlled by Compañía Minera Autlán, S.A.B. de C.V. ("Autlan"), in turn controlled by a director of the Company.

(ii) The amounts are advances made pursuant to the Loan Agreement (Note 6).

The amounts due to related parties are as follows:

As at:	**December 31, 2016**	December 31, 2015
	$	$
Amounts owed to Grupo or to Autlan for services provided to the Company's Mexican subsidiary (denominated in Mexican pesos):	**570,262**	676,356
Amounts owed to Autlan pursuant to the convertible loan, including principal and accrued interest (note 6):	**933,712**	793,701
Management fees and reimbursable expenses owed to a company controlled by an officer of the Company:	**5,348**	-
Directors' fees owed to a director of the Company:	**1,050**	-
	1,510,372	1,470,057

9. Income taxes

The reconciliation of income tax attributable to operations computed at the statutory tax rate to income tax expense (recovery), using a 26% (2015 – 26%) statutory tax rate, at December 31 is as follows:

	2016 $	2015 $
Loss for the year	(223,057)	(236,274)
Tax recovery at statutory tax rate	(58,000)	(61,000)
Permanent differences	-	14,000
Change in statutory, foreign tax, and other	4,000	-
Adjustment to prior year's provision versus statutory tax return	12,000	-
Expiry of non-capital losses	32,000	-
Change in unrecognized deferred income tax assets	10,000	47,000
Income tax expense (recovery)	-	-

As at December 31, 2016, the Company has Canadian federal net operating loss carry forwards as follows:

Expiry year	$
2026	288,898
2027	250,381
2028	253,814
2029	287,783
2030	195,448
2031	148,641
2032	149,849
2033	165,417
2034	140,271
2035	136,886
2035	137,755
	2,155,143

Future income tax benefits which may arise as a result of non-capital losses and unclaimed foreign exploration and development expenditures have not been recognized in these financial statements as their realization is uncertain.

The significant components of the Company's future income tax assets are as follows:

	2016 $	2015 $
Non-capital losses carried forward	567,000	536,000
Exploration expenditures carried forward	178,000	178,000
	745,000	714,000
Unrecognized deferred income tax assets	(745,000)	(714,000)
	-	-

10. Financial instruments

The carrying value of cash and cash equivalents and accounts receivable approximate their fair value due to the short-term nature of these instruments. The fair value of accounts payable, due to related parties and the liability component of the convertible loan may be less than the carrying value due to liquidity risk (see note 1 *Nature of Operations and Going Concern Uncertainty*). The Company determines the carrying amount of Convertible Loan by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that does not have an associated equity component.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

Currency Risk

As at December 31, 2016, all of the Company's cash and cash equivalents were held either in Canadian dollars, US dollars or Mexican pesos. The Company incurs expenditures in Canada and Mexico, and as such is exposed to currency risk associated with these costs.

A change in the value of the Mexican peso by 10% relative to the Canadian dollar would affect the Company's loss for the year by approximately $57,000, and its net loss for the year by approximately $3,000.

Interest rate and credit risk

The Company has cash balances and significant debt owed to a majority shareholder. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

The Company is not exposed to interest rate risk, as its convertible loan instrument is subject to fixed interest rates.

Liquidity risk

The Company currently depends on the advances provided by Autlan through the convertible loan instrument (Note 6). The liquidity risk relates to the low cash position and the dependence on these advances. See Note 1 for further discussion regarding liquidity risks.

11. Capital Disclosures

The Company's objective when managing capital is to maintain a flexible capital structure for its projects for the benefit of its stakeholders. The Company's main source of funds is from the funds received from Autlan as a part of the Loan Agreement (Notes 1 and 6).

The Company manages the capital structure and makes appropriate adjustments to it based upon changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

The Company's investment policy is to invest its available cash in Canadian chartered banks and from time to time in guaranteed term deposits at fixed interest rates established at the time of investment. All its funds are available for project and corporate objectives.

The Company considers cash and cash equivalents to include amounts held in banks. The Company places its cash with institutions of high credit worthiness. On December 31, 2016, the Company had cash of $10,636 (December 31, 2015 – $5,598).

The Company is not subject to any externally imposed capital requirements.

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